

School for Traders & Investors

Eighth Lesson

Studying the Forces That Move the Stock Market

WHAT are you chasing in Wall Street, Live or Dead Motion? It is a vital question and if you do not know, you should. If the first, you are a Newton, a thinker; if the second, a mere trailer, a "sucker." If the first, you buy on the "dips"; if the second, on the "bulges"; and that, you at least know, makes a difference.

You would not think a man very wise if you found him constantly "bucking" the law of gravitation, instead of following it, would you? But, if he kept on fighting it without making any attempt to find out whether it *was* a law he was up against, you couldn't help but think that he was a poor student at least.

Have you stopped to think that this so-called "buying on the bulges and selling on the dips" is but a simple manifestation of one of the mightiest laws in the universe, the law of motion?

Live and Dead Motion

Look at this thing a minute; the old scientific division in the law of motion is Dynamic and Static. The new, philosophical division is Live and Dead. The difference, as applied to the stock market, is just this: What the universe is doing all about you that you *cannot now see*, is live motion. What it has done, and is now doing, that you *see and know* is dead motion, so far as you are concerned.

What crops, business, money, politics, etc., will be next year, or twenty years hence, is now in the invisible making, that is live motion. What they are today, that you know, and it is dead motion.

What does this mean, in the last analysis? It means that buying on the bulges and selling on the dips is not an act peculiarly applicable to or characteristic of Wall Street, not a personal defect of your own judgment, but an infinite law of the universe characteristic of man's every breath of life.

The fact is, man is ever looking back to see ahead. It is an impossibility for man to see ahead in anything except by looking back. He cannot tell you that distance, that weight, that time, that estimate, that direction, or that chemical affinity until he goes back and gets his tape, his scale, his clock, his tables, his compass, or his formulas. That means that all his definitions, formulas, scales, dates, rules, are dead motion.

The Staff in Life

The best that we can do now in banking, government, commerce, politics, is to make a shrewd guess, to read between the lines, for JUNE 23, 1923

to peer and crane into the darkness ahead, waiting on the dead motion of the crop report, the dead motion of the clearing house returns, the dead motion of iron and steel reports of exports and imports.

Man's only staff through life is dead motion. He cannot see to put exits on his theatres or school buildings, or inspection on his steamboats, railroads, banks and insurance companies, until the loss of life and treasure has frightfully shocked the community. Man cannot see tomorrow till it becomes yesterday. He is forever shutting the stable door after the horse is stolen.

We All Do It

You have no right to hurl imprecations at yourself as being a blockhead because you always "buy on the bulges," or to assume that you do that only since you went into Wall Street. To a great extent, you always have done so, in your every act. To a great extent, you always will. Everybody, in Wall Street and out of it,

always does so. In a sense, Morgan himself can buy only a dead motion, for he has to study past conditions, present values, and the technical situation, before he can go ahead.

The practical question is, how can you so formulate the laws of dead motion as to calculate from them the direction and velocity of live motion?

The surveyor arrives at an unwieldy product by means of his table of logarithms. The civil engineer solves an otherwise insoluble equation by using the differential calculus. The builder reckons the strength of materials from tables into which have been condensed the results of thousands of tests with other similar materials. The bridge-builder knows from his studies the difference in strain between the freight train which creeps upon his structure and the passenger train which dashes upon it like a falling body. The artillery officer figures out the striking power of his projectile from the initial velocity, weight, and distance traveled. And so on throughout the whole range of science and industry.

Everywhere, live motion, or future motion, is calculated from dead motion, or past motion.

An Infant Science

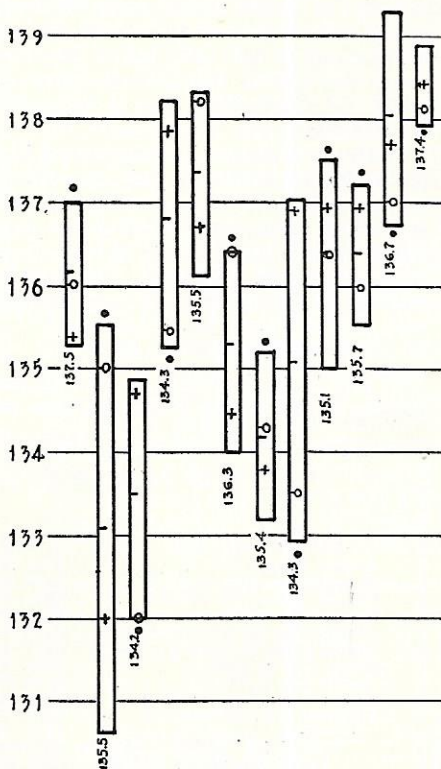
Do you mean to tell me that the stock market is the only exception? On the contrary, let me tell you that there is not a single element which contributes to the motion of prices in the market, that cannot be weighed, measured, computed, or analyzed. We are learning now how to calculate many of these factors. Others are still beyond our reach. But that all the essential elements of the problem will eventually be worked out in the form of scientific laws is a *certainty*, if the earth continues to rotate.

The study of live motion in the stock market is a science in its infancy. It was not so long ago that the physician bled his fever patient, shut all the windows, and refused him water. What would George Washington have said if he had suddenly come upon an aeroplane in flight?

The man who refuses to open his eyes to the possibilities of scientific study of the stock market puts himself on an equality with the Indian in his birch bark canoe who refuses to believe in the *Mauretania*.—C. W. D.

* * * * *

This reminds us of an article which appeared in this Magazine some years ago in which a well-known architect suggested (Please turn to page 362)



130

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INTERNATIONAL HARVESTER CO.

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machines." Thanks to the Government's investigations, we are able to state precisely what we should otherwise know only generally; that Harvester's costs are much lower than that of its competitors. The McCormick plant's costs of harvesting machines, for instance, in 1918 compared with five other manufacturers, was as follows:

Manufacturer	Grain Binder	Mower
McCormick	\$119.75	\$45.09
1	151.23	56.03
2	147.85	48.50
3	164.24	52.65
4	161.65	56.56
5	202.73	65.36

One of its strongest elements is derived through the ownership of the Wisconsin Steel Company, an organization embracing ore mines, vessels, coal mines, coke ovens and blast furnaces, as well as steel works and rolling mills and whose net income in 1913-1918, as revised by the Commission, averaged 56 per cent of the invested capital. Even allowing for the hostility of the Federal Trade Commission, this link allows ones' imagination to roam as to the various and many activities of the Harvester Company which make itself sufficient as to everything it needs and an example second only to United States Steel of the advantages of integration.

Adjustment and Readjustment

In the years 1913-1923 average earnings per share of common stock have been \$12.85. The two worst years in the history of the company have been passed without a serious impairment of its position. The margin of profit (the per cent of net to gross sales), has always been unusually high in normal years. Financial readjustment has been completed. At the end of 1922, quick assets, if liquidated at 12 cents on the dollar, would meet current obligations. Stated in the more usual way, the current asset ratio is more than eight to one.

The method of valuing inventories is worth emulation. The basic inventory, representing a normal quantity of raw materials, work in process and finished products is valued at 1919 cost. The additional, the quantity above normal, is valued at cost or market, whichever is lower.

The discontinuance of stock dividends is welcome and the reduction in the dividend rate to five per cent, the writer looks upon as wise.

No increase is anticipated during 1923, but the wealth of working capital, which exceeds the market valuation of the total common and preferred stock, is a well from which stockholders should quaff in future years.

With so many industrial corporations apparently crying for the return of "normalcy, by which they evidently mean pre-war conditions, it is well to recall that International Harvester is one of the few so-called "trusts" whose capitalization consists of a goodly proportion of water. Only a casual glance at 1913 or 1914 quo-

tations is necessary to prove that altogether too many corporations, now paying liberal dividends, were not in a position to consider dividend disbursements before the war. International Harvester, with its liberal "normal" income, is distinctly anxious for the return of a more equitable balance between agriculture and manufacture.

Harvester, then, is a conspicuously healthy limb of an equally sound tree. From this, however, it need not be inferred that the stock holds immediately attractive speculative possibilities. Such outlook seems to be precluded by the general uncertainty prevailing throughout the market. For those, however, who are in a position to hold regardless of temporary fluctuations the stock 20 points below where it sold several months ago certainly is among the soundest, representing a very strong company in a basic industry.

SCHOOL FOR TRADERS AND INVESTORS

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that it is possible to use the same method in judging the stock market that he employs when reckoning the strength of materials. The article in question has probably aroused as great interest on the part of our readers as any which appeared in the early volumes, and we believe that it contains a good many valuable points, some of which may be explained by those of our readers who are interested in this subject and who have had training as engineers.

The architect, in describing the idea, stated that in evolving this method, he had made extensive researches covering many years of stock market history and had compiled a mass of records covering transactions in leading active stocks. He employed the elements of time, volume and range, laying particular stress on the volume of shares traded in on the buying and the selling side. He differentiated these by considering the transactions which were above the previous quotations as purchases, and those which were below the previous transactions as sales. This gave him the element of lifting power or pressure, which when tabulated and analyzed gave him a line on whether the greater power was on the up or the down side. Thus he treated the market merely as a force and claimed that he could calculate it with as much certainty as a load applied to a steel or wooden girder, joist or beam. Such calculations he regarded as accurate and reliable.

His deductions to a certain extent also depended upon the number of shares traded in daily; that is, the volume of the particular stock or stocks under consideration and the whole market.

He regarded a "bull" day as one in which the stock or the averages closed above the average for the day, also above the opening prices; the reverse he considered a "bear" day. By judging the market as a force applied on the axis or average, in combination with the force applied as a lifting power, he was able to judge the result of the tug-of-war for

that stock on that day. He also considered the movement of three previous days, the previous week and month, this giving him the element of distance, with the number of shares giving him the element of volume.

He regarded the market as something which can be calculated exactly as he would calculate the sustaining power of a wooden joist. A joist, he says, will safely hold just so much, and the factor of safety when encroached upon is on the side toward danger; when exceeded the joist will break; so will a stock when put under a corresponding amount of pressure.

The graph illustrating his idea is presented herewith, in the hope that some of our engineer-subscribers may explain the workings of it from a mechanical and engineering standpoint.

HAVE YOU A LITTLE BUDGET IN YOUR HOME?

(Continued from page 331)

taxes on the house it brings the total down quite a bit. I will explain the tax feature further along in this article.

Clothes:—This amount is also to be used for vacations and to pay doctors' and dentists' bills. All small items of clothes such as collars, neckties, stockings, etc., come out of the miscellaneous account unless a number of articles are purchased at one time.

Insurance:—This is set aside to meet premiums due semi-annually. I carry life insurance of \$2,500 and an accident policy of \$7,500 that provides double indemnity in case of accident on a public carrier.

Miscellaneous:—This account represents pocket cash and is used for carfares, lunches, clothes as mentioned before, and all personal expenditures of a small nature.

The bookkeeping of my budget is quite simple. I am paid by check which I deposit to my account. (I endeavor at all times to keep my balance over \$300 and in this way I feel and hope I am building up my credit at the bank for use in future emergencies.) In a loose-leaf ledger I credit the proper proportion of the check to each account, and draw checks as needed. All the household bills for milk, groceries, light, etc., I pay by check and charge to the account of board. From savings I make a monthly deposit in a Cooperative, or as sometimes called, a Building and Loan, bank. The balance I let accumulate until I have enough to buy a few shares of some good stock or a \$100 bond. In this way I have acquired over \$2,000 par value in good stocks and bonds since 1920. The stocks now show me a good profit and I shall soon sell and wait for another opportunity to buy cheaply again.

The tax feature I mentioned has nothing to do with my budget but may prove of interest to those who have difficulty in paying their taxes when due. We had this difficulty until we hit on the plan of depositing 1/12 of the taxes in a savings bank every month. As this bank pays interest from the first of every month we now receive a little interest where before we had to pay it out on overdue taxes.

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